

Marin County Investment Pool

Full Rating Report



Pool Features

Inception Date	Circa 1950
Pool Type	LGIP
Investment Advisor	Marin County Director of Finance
Custodian	Wells Fargo
Investor Composition	87% Captive Participants
Assets	\$761,000,000

Key Rating Drivers

High-Quality Credit Portfolio: The Marin County Investment Pool (the pool) invests primarily in U.S. government obligations and registered money market funds rated 'AAAmf' by Fitch Ratings or equivalent. The pool also currently invests a small amount in the Local Agency Investment Fund (LAIF), a local government investment pool (LGIP) managed by California's Pooled Money Investment Board.

Liquidity Management Supports Predictable Flows: The maturity profile of the pool is managed to meet anticipated cash flow needs of the pool's participants. By its investment policy, the pool seeks to maintain adequate cash on hand to meet cash disbursements and payroll through maturing investments. Cash flow projections are an integral part of the overall cash management responsibilities of the pool administrator.

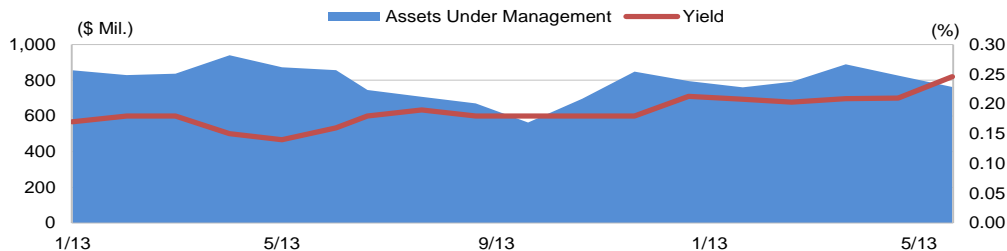
Low Sensitivity to Market Risk: The pool employs a cash flow-matching investment strategy to structure investment maturities to coincide with conservative expectations of draws on the portfolio. The pool has historically benefited from highly predictable cash outflow needs of the pool's participants, the majority of which are captive in nature. Market risk is mitigated by the duration of the pool, which typically is two years or less, as well as the predictable nature of the cash outflows of the largely captive participant base.

Stable Investor Base: The pool is managed on behalf of the pool participants, which are largely captive in nature and include the county, school districts, trial courts, recreation and park districts, libraries, landfills and other special districts.

Oversight Decreases Operational Risk: Portfolio oversight and operational controls are consistent with the assigned ratings. The pool is organized and invested in accordance with the state of California government code section 53600 and section 53639 and is not registered under federal law. A treasury oversight committee reviews the pool on a regular basis. The pool is also subject to quarterly and annual audits from external auditors.

Industry Standard Administration and Systems: The Marin County treasurer's office uses appropriate systems for investment, administration, portfolio management and trading. Processes provide decisionmaking tools for risk analysis and investment-allocation tools.

Assets Under Management and Yield



Source: Fitch.

Analysts

Gwen Stone, J.D.
+1 212 908-9128
gwen.fink-stone@fitchratings.com

Russ Thomas
+1 312 368-3189
russ.thomas@fitchratings.com

Rating Rationale

The Marin County Investment Pool is rated 'AAA/V1' by Fitch. The 'AAA' fund credit rating reflects the investment portfolio's vulnerability to losses as a result of defaults in its bond holdings and is based on the actual and prospective average credit quality of the portfolio's investments. The 'V1' fund volatility rating reflects the relative sensitivity of the investment portfolio's net asset value to assumed changes in credit spreads and interest rates, as well as certain other market risk parameters.

Fitch's evaluation of the pool also considers the management and operational capabilities of the Marin County treasurer's office and the legal and regulatory framework under which the pool operates. Portfolio valuation reports are submitted to Fitch on a monthly basis. As of June 30, 2014, the pool had approximately \$762 million under management.

Organizational Overview

The county of Marin is located in Northern California. The pool is managed by the Marin County director of finance on behalf of the pool participants. Participants are defined as: Marin County; Marin public school agencies; Marin Community College; the Marin County Office of Education; districts under the control of the county board of supervisors and autonomous/independent districts, whose treasurer is the Marin County director of finance and any other districts or agencies approved by the board of supervisors and the county treasurer, using Marin County as their fiscal agent.

Roy Given, Marin County's director of finance, has overall responsibility for overseeing the pool's investments and operations. The pool's investment policies are reviewed periodically by the treasury oversight committee, consisting of representatives from Marin County, the superintendent of schools' office and school and special districts.

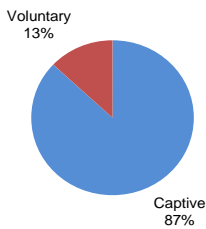
The pool is also subject to an annual external financial audit performed by an independent certified public accounting firm in addition to a quarterly cash count verifying cash and investment balances. Wells Fargo Institutional Trust Services, a unit of Wells Fargo Bank, N.A. (rated 'AA-/F1+' by Fitch), acts as the safekeeping agent and custodian for the pool's assets. There are daily and monthly reconciliations of records with the custodian.

Pool's Objectives and Investment Practices

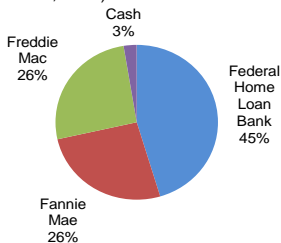
The pool's primary investment objective is preservation of capital. The secondary objective is to maintain sufficient liquidity to enable participants to meet their operating requirements. The tertiary objective of the pool is to obtain a rate of return consistent with the first two objectives.

The pool seeks to pursue its investment objectives by investing in a diversified portfolio of high-quality debt securities rated at least 'A/F1' by Fitch or equivalent. Permitted investments include U.S. Treasury and government agency securities and state of California bonds, as well as registered warrants, bankers' acceptances, commercial paper, negotiable certificates of deposit, time deposits, medium-term notes, shares of money market funds, repurchase agreements and the LAIF. Under the pool's investment policies, the use of reverse repurchase agreements or securities lending programs is not permitted. Additionally, in accordance with Marin County's Nuclear Free Zone Ordinance No. 3502 Measure A, the county is prohibited from investing in securities or other obligations of any corporation or business entity that is a nuclear weapons contractor.

Pool Participation (%)



Portfolio Composition (As of June 30, 2014)



Note: Numbers may not add to 100% due to rounding. Source: Marin County Treasurer.

Related Criteria

[Global Bond Fund Rating Criteria \(August 2013\)](#)

The fund invests 97% in U.S. Treasury and government agency securities, with the balance in money market funds, LAIF and revenue anticipation notes.

Asset Credit Quality

As of June 30, 2014, approximately 97.30% of the portfolio was invested in U.S. government agency securities, 2.6% in money market funds, 0.07% in revenue anticipation notes (RANs) and 0.03% in LAIF. According to the pool’s investment policy, eligible money market instruments must be rated at least ‘A/F1’ by Fitch or equivalent, except for the LAIF, which is not rated.

The pool restricts concentrations in any one issuer (other than the U.S. government and its agencies) to a maximum of 5% of total assets to minimize single-issuer exposure. Repurchase agreements are entered into only with counterparties rated at least ‘A/F1’ by Fitch or equivalent and are 102% collateralized by U.S. government securities. As of June 30, 2014, the pool did not have any investments in repurchase agreements.

LAIF is a LGIP with assets under management of \$21.1 billion as of June 30, 2014. LAIF’s assets are not comingled with the state’s moneys or in any way available for state use. Fitch does not rate LAIF. However, Fitch views it as being managed in a manner generally consistent with other Fitch-rated LGIPs operating in the state of California in terms of asset credit quality, issuer diversification, investor diversification and liquidity management. As of July 30, 2014, the pool had a total of \$236,237, or 0.03% of its assets, in LAIF.

Fitch generally views investments in LAIF by other rated entities of less than or equal to 15% as consistent with ‘AAA/V1’ ratings, particularly if such investments serve as the sole or primary source of overnight liquidity. Higher levels of exposure to LAIF may be viewed as consistent with ‘AAA/V1’ ratings, provided such additional investment does not serve as the sole or primary source of the portfolio’s overnight liquidity.

Weighted-Average Rating Factor

Based on the portfolio credit quality and maturity profile as of June 30, 2014, Fitch calculated the weighted-average (WA) rating factor of the pool to be consistent with an ‘AAA’ fund credit rating. This analysis includes a reduction of the credit factors for securities in the portfolio maturing within 13 months, in recognition of the lower default probability of such securities relative to longer-dated securities. As of June 30, 2014, securities maturing in 13 months or less of their stated maturities represented approximately 76.3% of the portfolio.

Rating Distribution and Minimum Ratings

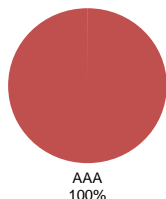
In evaluating LGIPs, Fitch also considers the portfolio’s minimum asset ratings, as well as the extent to which the portfolio may undertake a barbelled investment strategy. As of June 30, 2014, the portfolio consisted of long-term assets rated ‘AAA’, short-term assets rated at least ‘F1’ by Fitch or equivalent and the minimal investments in LAIF. The high credit quality and absence of a barbelled investment strategy are viewed as consistent with the ‘AAA’ fund credit rating assigned to the portfolio.

Diversification

The pool is mainly invested in U.S. government agency securities, which are viewed as the highest credit quality, and liquid holdings. As of June 30, 2014, the portfolio held 25.9% of its total assets in securities issued by Freddie Mac, 26.1% in securities issued by Fannie Mae and 45.3% in securities issued by the Federal Home Loan Bank (FHLB).

The portfolio is invested entirely in ‘AAA’ rated securities, and 76% of the portfolio matures in 13 months or less.

Rating Composition
(%)



Liquidity risk is mitigated by the largely captive nature of the participants. Additionally, approval from the treasurer and advance notice are required for withdrawals.

Top 10 Holdings

(As of June 30, 2014)

Security	% Security	%
FHLB	3.28 Money Market Fund	1.31
FHLB	1.83 Money Market Fund	1.31
FHLB	1.58 FHLB	1.31
FNMA	1.44 FHLB	1.31
FHLB	1.41 Freddie Mac	1.08

Liquidity Management

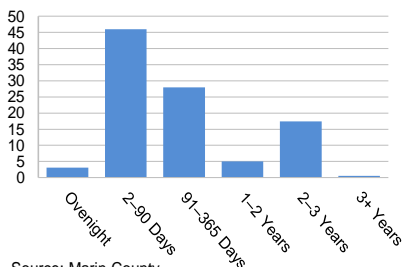
The pool has daily access to its investments in money market funds and LAIF to meet daily withdrawal requirements and cash outflows, amounting to 2.7% of the portfolio's assets. As of June 30, 2014, approximately 21% of the portfolio's assets had a maturity of 30 days or less. In addition, the pool maintains a significant position in U.S. government agency securities, which are expected to demonstrate secondary market liquidity even during periods of market stress.

To meet liquidity targets and minimize exposure to interest rate changes, the pool uses a laddered investment strategy across a short maturity spectrum. The pool also employs a cash flow-matching investment strategy to structure investment maturities to coincide with conservative expectations of draws on the portfolio. The pool has historically benefited from highly predictable cash outflow needs of the pool's participants. The stability of cash flow projections is based on the pool's composition, as approximately 87% of participants are captive in nature and thereby required to maintain funds in the county pool. The pool's anticipated redemptions include payroll and benefit payments, accounts payable, debt services and other planned expenditures.

Furthermore, no withdrawals from the pool can be made for the purposes of investing those funds outside the pool without prior approval of the Marin County director of finance. An approval can be given as long as such a withdrawal does not negatively affect the interests of other participants. A notice of withdrawal is required to be made in writing at least 10 days prior to the proposed withdrawal date. A notice of withdrawal in writing of at least five business days is required for withdrawals in excess of \$250,000 for loan repayments, capital expenditures and any expenditure not in the ordinary course of operations.

Portfolio Maturity Profile

(As of June 30, 2014)



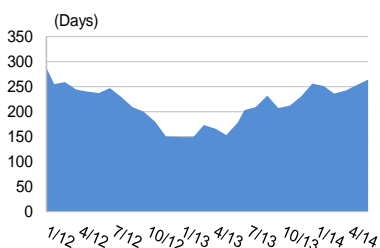
Source: Marin County.

Duration Management

The WA maturity to reset date (WAMr) of securities held in the portfolio was approximately 268 days as of June 30, 2014. WAMr is a measure of a portfolio's sensitivity to changing interest rates. As of the same date, approximately 76% of the pool's total assets were invested in securities with maturities of one year or less.

By investment policy, the pool must maintain an average maturity of less than 18 months and is not allowed to purchase securities with maturities greater than two years. However, the treasurer may authorize the purchase of U.S. government agency obligations with final maturities of five years or less.

WAM to Final Maturity



Operational Assessment

✓ Pass

● Attention required

x Fail

✓ Pass		● Attention required	x Fail
Service Providers		Investments	
Custodian	✓ Wells Fargo	Investment Objective	✓ The pool's primary investment objective is preservation of capital. The pool's secondary objective is to maintain sufficient liquidity to enable participants to meet their operating requirements. The last objective of the pool is to obtain a rate of return consistent with the first two objectives.
Investment Advisor	✓ Marin County director of finance	Composition	✓ Permitted investments include U.S. Treasury and government agency securities, state of California bonds, registered warrants, bankers' acceptances, commercial paper, negotiable certificates of deposit, time deposits, medium-term notes, money market funds, repurchase agreements and LAIF. LAIF is the California state investment pool, managed by the state treasurer's office.
Auditors	✓ In accordance with the California government code, an investment oversight committee performs an annual audit. An additional treasury oversight committee is responsible for ensuring the pool's compliance with its investment policy. The committee meets twice a year and consists of five members, two school districts, one member of the county at large, one county administrator and one member from a special district.	Liquidity Management	✓ By its policy, the pool maintains adequate cash on hand to meet cash disbursements and payroll through maturing investments. Cash flow projections are an integral part of the overall cash management responsibilities of the treasury division.
Stability in Service Providers	✓ Unchanged	Withdrawal Requirements	✓ No withdrawals from the Marin County pool shall be made for the purpose of investing and or depositing those funds outside the pool without the prior approval of the Marin County director of finance. Approval shall be given unless the withdrawal will adversely affect the interests of the other depositors. Requests for withdrawals for the purpose of investing or depositing funds outside the pool shall be made in writing at least 10 business days in advance. Notice in writing of at least five business days shall be required for withdrawals in excess of \$250,000 for loan repayments, capital expenditures and any expenditure not in the ordinary course of operations.
Regulation and Governance		Disclosure and Transparency	
Governance	✓ The County of Marin investment portfolio shall be subject to a process of independent review by the county's external auditors. The county's external auditors review the investment portfolio in connection with the annual county audit for compliance with the statement of investment policy pursuant to government code section 27134. The results are reported annually to the director of finance and the Marin County treasury oversight committee. The treasury oversight committee shall cause an annual audit to be conducted to determine the county treasury's compliance with Article 6 of the government code. This audit may include issues relating to the structure of the investment portfolio and risk.	Clear Strategy Representation	✓ The fund has a broad mandate that includes adherence to Marin County's Nuclear Freeze Ordinance Measure A as approved by the voters on Nov. 4, 1986. The county is prohibited from investing in securities or other obligations of any corporation or business entity that is a nuclear weapons contractor.
Control Framework	✓ Compliance controls are in place to ensure adherence with investment guidelines.	Level of Disclosure	✓ Good level of transparency: the county's website (http://www.sbcounty.gov/atc/) contains financial reports, investment policy and information on other policies pertinent to pool management.
Operations			
Pricing Responsibility	✓ Securities are booked at purchase price and marked-to-market monthly by the pools' custodian Wells Fargo Bank. The treasurer's office uses real-time pricing supplied by Wells Fargo, as custodian.		
Technology	✓ Appropriate and integrated portfolio management system.		
Back-Office Reconciliations	✓ Income apportionment to the participants is conducted on a quarterly basis after deducting the pool's expenses according to specified sections of the California government code.		

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